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*Some lessons for estimative intelligence on Communist China derived from analysis of errors past.*

## POST MORTEM: THE CHINESE ECONOMY <sup>1</sup>

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Seldom has Western intelligence been so awry as in the estimates which it made of Communist China's strength during the past few years. Without decrying the difficulties involved in those estimates, a candid examination of finished intelligence during the unfolding of China's economic history will reveal gross errors in interpreting the events as they occurred and in estimating the probable consequences of the regime's extreme economic policies. The causes of these errors were complex, but as a central one it may be suggested that until very recently there existed in the Western intelligence world a disposition to respect, or at least a reluctance to disparage, Communist China's own claims and policies in economic matters.

This attitude probably had its origin in the early years of the Communist regime, when the leadership conveyed by its actions a distinct impression of being more adroit, adaptable, honest, and reasonable than its counterpart in Stalin's USSR. Western travellers and diplomats in China had found that the Chinese were not so neurotically heavy-handed as the Russians in such matters as the security supervision of foreign visitors. The leaders had controlled inflation and suppressed corruption. They managed land reform with comparative ease, even though they found it necessary to kill many landlords. Furthermore, they showed at an early stage that they were capable of really big achievements: progress in the rehabilitation of transport facilities had been rapid and the Chinese armed forces had put up an effective fight in the Korean war. Perhaps these and other early attitudes and achieve-

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ments put us into a receptive frame of mind for what they were subsequently to claim and to propose; perhaps we tended to translate our general impression of Chinese energy and flexibility into a belief that they possessed sufficient acumen to develop smoothly a modern economy.

*The First Five-Year Plan*

When China first began to issue over-all production figures in 1954 and 1955, we tended to accept them with little reservation, even though our own estimates had been lower, in general, than the Chinese claims. In the circumstances, we were probably justified in doing this: the Chinese figures were accompanied by hitherto unrevealed detail which appeared to permit them to be checked, and such few tests as we could apply for internal consistency gave a general credibility to some of the more abstract data released at about the same time, data such as gross value of production, budgetary and investment figures, and financial and banking information.

Allowing that we were justified in accepting these early claims, there were grounds for looking sceptically at the claimed performances in agriculture from 1956 onwards. By and large, however, the intelligence community accepted that the Chinese Communists substantially collectivized agriculture in a single year and in that same year achieved a record harvest. In a later section of this paper I shall raise the question of whether the collectivist principle is suitable to agriculture anywhere or at any time; but even if the general long-term efficacy of collectivization had been above suspicion, there was ample evidence in the USSR and the European Satellites that considerable trouble and loss of production can attend its early stages. It behoved us to inquire whether such a crash programme as China's in 1955 and 1956 could have been achieved without detrimental effects on morale and production, at least in the short term. Had we given more weight to this danger we might have been less willing to accept Chinese claims that food production increased in every year of the first five-year plan, and it is possible that we should have suspected the strongly illiberal and doctrinaire tendencies which were to culminate in the Leap Forward.

It has become customary within the intelligence community, when discussing the first five-year plan, to describe it as

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"well conceived and impressively implemented," with the connotation that the able leadership of the regime was a principal causal factor. Knowing what we now know about agricultural difficulties, is there justification for persisting in this formulation? The plan's neglect of investment in agriculture is surely a serious black mark against it. If the underlying policy of giving highest priority to heavy industrialization is accepted, perhaps the plan can be accurately described as "well conceived." But even then, it is permissible to wonder if the term is really apt; after all, the plan was not promulgated until half way through the period of its operation. Furthermore, there is reason to believe that the Russians exercised a restraining influence on the Chinese, who wanted a much more ambitious rate of growth; indeed, the first five-year plan can appropriately be described as Russian, rather than Chinese, in concept and largely in execution as well.

What can still be said about the plan is that an impressive amount of industrial plant was installed during the period; there is not much doubt of this. But even this achievement, it can now be seen, is somewhat tarnished. The Chinese were able to install this plant only with massive Soviet assistance. I do not believe that either the Chinese or we should be criticized for failing to discern all the pitfalls in such an extreme dependence on the USSR, but it is now clear that when the Chinese were leapfrogging to high levels of technology in selected fields they were only postponing the serious problems of developing a broad and sound industrial base.

*The Leap Forward*

Thus while Western intelligence appreciations were not badly awry during the period of the first plan, they provided a sufficiently biased picture to make us vulnerable to the claims of the Leap Forward. With the advent of the latter in 1958, reality and intelligence appreciations began to diverge so widely as to impair very seriously the fulfillment of our intelligence aims. In the last months of 1957 there were signs of Chinese dissatisfaction with the application of the Soviet model to China, but the counsels for temperate and rational modification were soon overwhelmed, and a frenetic movement developed which was to bring China to the verge of economic disaster. Even allowing that so many matters become

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clear in the wisdom of hindsight, it is difficult at this stage to understand why the West was so slow in appreciating the outrageous character of the Leap Forward.

Under the grand slogan "more, better, faster, cheaper," the regime was attempting something almost magical, something never before attempted. It had already destroyed the profit motive, and when it virtually abandoned central control it provided a strong case for predicting that, unless truly effective alternative means of coordinating and regulating economic activity were introduced, chaos would result. Instead, it was long implicit in the Western intelligence community's assessments that the Chinese had discovered an entirely new economic system and that this system not only could work but could achieve very impressive results.

It is strange to recall for how long we acquiesced in the Chinese statistics with their spiralling production figures. Any country's national statistics are subject to the possibility of honest mistake and to the fact that all governments like to show their best statistical faces to the world, but there are three reasons for treating Communist statistics with particular circumspection, and these reasons applied with special force to Communist China during the Leap Forward years.

First, there may be inbuilt tendencies towards exaggeration, even where the leadership does not countenance them. But during the Leap Forward the inbuilt forces of exaggeration received a strong impetus from the exhortations of the regime. If ever there was an invitation to reject statistics, it was the leadership's injunction that statistics should serve politics. Whatever might have been the precise meaning of this injunction, it was pregnant with dangers for the statistical reporting system. It would have been well if, when that slogan was first coined, we had tentatively concluded that we could no longer believe the statistics.

The Western intelligence community's recognition that China was promulgating false statistics was not only belated; it was also inconsistent. After being forced to the conclusion that agricultural statistics were greatly exaggerated, we tended for some time to accept statistics for industrial output, despite the fact that industry was known to be heavily dependent on agriculture; and even after some of us had

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scouted the industrial claims, others continued to accept them. Our tendency to be influenced by the regime's exaggerated claims was so marked that even after rejecting these claims we provided estimates of our own which were also much too high.

Second, even accurate statistical data can fail to convey the true picture. Economic statistics can provide an exaggerated idea of the state of prosperity in a Communist country, as measured by a qualitative assessment of the socio-economic-political situation. Poland in about 1956 and more recently East Germany are good examples of this. Conversely, we can think of some non-Communist economies which, statistically, should have been dead and buried long ago, for example Egypt and Indonesia. With respect to Communist China in 1958, it would have been possible to conclude from the industrial production and investment figures given out that the country was firmly on the path to industrial greatness; but a qualitative appreciation would surely have suggested that the statistics did more than justice to China's basic industrial capability and that continuing Soviet support of the economy would be necessary even to maintain the industrial gains which had been achieved.

Third, the data may be too crude for use with advanced methodology. There is reason to believe that we have gone too far in applying advanced theorems and statistical procedures to Chinese Communist data which do not really lend themselves to refined development. Much as we should like to obtain confident constructions and projections of China's national product and its sub-aggregates and to comprehend more fully the interactions of those sub-aggregates, the quality of the basic inputs seems quite inadequate for the purpose. Though great ingenuity has been applied to the effort, we are faced with paucity and unreliability of information on incomes and expenditure; the pricing data available to us are often extremely faulty; information on types and rates of production is so spotty as to make estimates of industrial output most hazardous; and the quality and quantity of investment are too uncertain to permit realistic estimates of capital yields. Only to a very limited extent can refined methodologies compensate for faulty data.

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The communes episode is now justly regarded as an absurdly executed experiment. The precipitateness with which this radical programme was introduced smacked of the actions of fanatics who believed that they had discovered the blinding truth and that somehow Providence would provide. Almost from the beginning the disruptive possibilities inherent in such rapid regimentation and in interference with family life and the staggering management difficulties involved in the system were privately recognized, or at least suspected, in many quarters. Many of us recall having said, or having heard our colleagues say, "They have gone too far this time; they will never pull this off." Yet the written appreciations which appeared revealed the same fatal bent which characterized our approach to the Leap Forward; they pointed to some dangers, it is true, but in general they emphasized the great potential strength of the system, its economic advantages in terms of proportionality and scale, and its probable efficacy in bringing about true full employment.

*Sources of Error*

If the greatest sin in the intelligence world is to underestimate our enemy, we thus committed the second greatest sin during the era of the Leap Forward and the communes; we greatly over-estimated Communist China's capabilities and did so largely on the basis of what the Chinese themselves told us. It is true that we subjected their statements to analysis (perhaps over-sophisticated analysis), but frequently, I am afraid, with too great a readiness to give them the benefit of the doubt.

A number of attitudes and pressures were responsible for this approach. Doubtless the chief of these was the desire to avoid the danger of underestimating a country dedicated to hostility to the West. Doubtless also the earlier example of the leadership's realism, adroitness, and flexibility had impressed us to the extent that we failed to regard the Leap Forward as an indication that our original assessment of the regime's astuteness had been wrong.

Much of the fault, however, lay in the analytical procedures which we adopted at the time. It is natural that specialists in

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particular analytical fields should be prone to consider their own areas of activity somewhat in vacuo, and it must be conceded that the Leap Forward claims for almost any single industrial commodity might have been capable of achievement if the remainder of industry had not simultaneously been leaping forward. It behoved the generalists among us to question the feasibility of achieving, simultaneously, very large increases in virtually all fields of production. But the generalist, enmeshed in his craft, tended for too long merely to aggregate the specialists' estimates for individual fields of activity; furthermore, he subjected these aggregates to technical refinements which were not warranted by the quality of the data.

For the sake of internal consistency, I shall allude here also to a factor which I shall treat in more detail at a later stage; I refer to the pressure on the analyst for determinate and quantitative answers. These pressures came from both within and without the intelligence community and, combined with our earlier impression of Chinese capabilities, they led almost inevitably to our being misled by Leap Forward claims. Had the analyst been permitted and encouraged to adopt a more frankly intuitive and premonitory approach, we might have foreseen from the beginning that the small-scale movement in industry would fail; in early 1959 we could have warned our policy makers that serious food shortages were likely and that industrial breakdowns were imminent; and from the moment the Soviet technicians departed we could have stated that the formula for industrial chaos was complete.

*Basic Postulates*

It is clear from this review that to some extent we could have avoided serious pitfalls if we had been more prone to challenge certain conventions which we had earlier accepted. This consideration points to the need to examine constantly the basic postulates which govern our approach to the study of Communist China. There is nothing very original in this thought; indeed, it is a truism that in any of the social sciences our assumptions are often erected on shifting sands, having frequently been formulated, not because they necessarily accorded exactly with reality, but because some pre-

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liminary formulation is necessary if a scientific approach is to be used at all.

There is obviously an infinite number of postulates underlying our intelligence studies of Communist China. Many of these are beyond the expertise of the intelligence economist (for example the assumption that the regime has firm political and military control), but it seems to me that of the many postulates which bear directly on the intelligence economist's task there are four which are particularly deserving of continuous examination. These are discussed in the following paragraphs.

The first is *that the Chinese Communist leadership is flexible, realistic, and willing to learn by its mistakes*. In the five years that have elapsed since China's economic planning became purely Chinese, in the sense that it was no longer heavily influenced by the USSR, the Chinese leadership's record in this respect has been very bad indeed. It has at times shown itself to be unrealistic, perverse, and obstinate. It has been so doctrinaire in its approach to economic development, particularly in agriculture (where the Chinese certainly cannot be considered inexperienced), and has exhibited such simple faith in ideological indoctrination as the touchstone of economic progress that one can but wonder if these rude revolutionaries really are capable of comprehending China's complex economic problems. I do not mean to imply, however, that the Chinese Communist leadership is necessarily incapable of being flexible and of learning from its errors. I merely propose that for the time being we should retain a wholesome distrust of any approach which attempts to judge or predict the Chinese Communist regime's actions and policies by its reputation, however and by whom that reputation may be gauged.

Another is *that the collectivist principle can work well in agriculture*. Wherever collectivism of the Communist type has been tried, the record has been poor. The success of tropical plantation farming and cooperative farming in Israel suggest that organizationally and even psychologically some type of collective farming with workers who are not owners may be feasible. It does seem definite, though, that collective farming will not succeed if it is imposed on a population which

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is hostile to it. Furthermore, the collectivist principle will be difficult to establish in small-scale, intensive agriculture, with its great emphasis on opportunism in cultivation. On both these counts it is unsuitable in China. If these views are valid, they point to a dilemma for the Communist regime, for which collectivization is a means of gaining the necessary control of agricultural output.

A third is *that it is possible for the Chinese to achieve an acceptable measure of success in agriculture without making agriculture paramount in their planning*. Our earlier acceptance of this postulate was implicit in the fact that, although we realized that agricultural investment was being neglected in favour of industry, we did not forecast a consequent early failure of agricultural production to keep pace with population growth. Perhaps we were correct in assuming that such factors as the rehabilitation of the long-neglected irrigation works, the salutary effects of land redistribution, and the restitution of law and order would give the regime an adequate margin of time to develop a heavy industry which could, in turn, be directed to the support of agriculture. In retrospect, however, it is questionable whether we paid sufficient attention to the interaction of these same factors and the growth of population.

Whether or not we were justified in retaining this implicit assumption in the past, we should now examine it extremely critically. We are all prone to expound the huge problem of the world's population explosion, and it is surely necessary for us to remember that China is the world's leading example of that problem. In view of the parlous condition of China's agriculture today and the long period needed to acquire modern implements, seeds, fertilizers, and scientific tilling techniques, it would seem wise to adopt a tentative assumption that nothing short of a brilliant and sustained effort in agriculture would be sufficient to give the Chinese Communist regime a chance of surmounting its problems of food and people.

It will be noted that in stating this postulate I did not define what constitutes an "acceptable" measure of success in agriculture. Here it may be well to call attention to another assumption implicit in our analyses, namely, that the Commu-

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nist leadership will bend every effort to prevent starvation among the Chinese people. I grant that failure to do this would bring great loss of face on an already somewhat discredited regime: inevitably more Chinese, who for the past decade have been prepared to endure hardship in the cause of nation building, would conclude that the Communists had lost the mandate of Heaven. Nevertheless, a ruthless regime might take a calculated risk, particularly if it was then engaged in a programme of capital improvement in agriculture that would bear fruit in the near future. I suggest, therefore, that an acceptable measure of success in agriculture might have to allow for a tolerable margin of starvation in bad years.

The fourth is *that Communism, as we know it, will work well and be retained in China*. At least until comparatively recently, we have implicitly assumed that Communism would persist in China in a form closely akin to that in the rest of what we still call the Sino-Soviet Bloc. We were therefore not prepared to recognize and appreciate the radical nature of the deviation which the Leap Forward represented. Even though that deviation was cloaked in the pious phrases of fundamentalist Communism, it was in fact a complete departure from the principles of central planning applied elsewhere in the Bloc. Today, although the Chinese have recoiled from the excesses of the Leap Forward and are trying to rectify the damage, they are still faced with the same basic economic problems that they were trying to solve when they embarked on that frenzied campaign. Can China be any less concerned now than it was then to exploit fully its most abundant resource, manpower? Must it not continue to seek out labor-intensive production techniques which can be feasibly substituted for the capital-intensive techniques of Communist practice?

This inspires the question whether China's natural setting will exert such powerful influences as to cause a marked and permanent modification of Communism as we know it. The Chinese have a long record of regurgitating or radically modifying foreign intrusions. Today they are experiencing severe economic difficulties which are the resultant of their grim natural setting and their interpretation of an alien dogma.

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It is legitimate to speculate whether they are in the early stages of modifying out of existence yet another alien intrusion, or at least to conjecture that they may be in the process of working out a radically different practical interpretation of Marxist dogma.

These considerations bring to question whether we are regarding China sufficiently as a unique problem. It is incumbent on the Western intelligence world to go back and ascertain, exhaustively and in detail, the nature of Communist China's departures from the orthodox Communist method—such departures, for example, as the abandonment of rigid planning, the dropping of the scientific approach, and the apparent rejection of the notion that material abundance is prerequisite to the move to Communism. If we could obtain a reasonable hypothesis explaining why these departures took place, we could come closer to saying whether the Chinese are in the process of rejecting or substantially modifying yet another alien infringement.

## Conclusions

The most important single conclusion which emerges from this study is that experience precludes us, for the time being at least, from employing the inductive method to obtain confident generalizations about the wisdom, realism, and ability of Communist China's leadership. We must try to assess the meaning of the regime's statements and actions largely in isolation from what we are tempted to think we know about the regime itself. We simply are not sufficiently familiar with the mainsprings of the leadership's behaviour to be able to say with any real assurance that it has learned from its past mistakes, or whether it is likely to pursue its aims consistently, or even what those aims may be.

If this conclusion be valid it is big with implications for our intelligence assessments of what is happening in China at present and of what is likely to happen in the future. The three most important basic variables affecting the future Chinese course are the forces of nature, the state of Sino-Soviet relations, and the wisdom and realism of the regime. The first of these is imponderable, the second is full of uncertainty, and we are now forced to treat the third as being intractable to confident assumptions.

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These remarks might be taken to suggest that there is very little that the intelligence world can say about the condition and prospects of Communist China's economy, but the position is by no means as gloomy as this. What is suggested is that our estimates will have to be much less determinate than in the past, and I think our intelligence efforts will improve if we recognize this. We must be boldly frank with our customers whenever situations arise with which our conventional analytical approach cannot cope; in particular, we must avoid quantifying in the absence of adequate reliable data. We must sometimes be content to describe qualitatively what is occurring, pointing out the theoretical strengths and weaknesses of the Chinese position and predicting, with appropriate qualifications, whether the strengths or weaknesses will dominate. Had we used this approach during the Leap Forward we should have obtained an understanding of what was happening in China sooner, perhaps very much sooner, than we did.

It is probable, too, that a less rigid and less ambitious analytical approach will permit us to make better use of such limited hard intelligence as is available. As early as 1959 there was what can now be recognized as fairly clear evidence of a food shortage in China, but we could not give sufficient weight to this evidence because it was so patently inconsistent with our previous conclusions. There is little enough reliable information emerging from Communist China, and we cannot afford to allow our basic postulates and methodologies to become so crystallized as to prevent us from wringing the full meaning from hard intelligence when it comes our way.

In this post-mortem on our experiences with China's Leap Forward I have dealt mainly with problems springing from our analytical attitude. It would be a rash person indeed who would care to suggest an organizational cure-all for our difficulties, but I would like now to touch briefly and lightly on the subject of organization for research on Communist China. Are there any organizational lessons we can derive from our failures?

The dearth of usable official information has seriously affected our research, and we have freely admitted this. I wonder, however, if we have been fully aware of what it was

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doing to our organizations during the Leap Forward. Fine divisions of research responsibility had earlier been established to pursue research in some depth. These divisions served us ill as the information dried up. More and more analysts lost their moorings, fewer people had the big picture, and in the scramble to keep up intelligence production more conjecture—fragmented, uncoordinated conjecture at that—went on at all levels. The pressure for determinate results was of course part of the malaise. But in retrospect, we might have maintained somewhat greater organizational flexibility as well as the more realistic research requirements previously mentioned, and the need for this still exists and seems likely to continue.

Another aspect of organization deserves some consideration. We have tended to conduct our economic research on China somewhat in isolation from other disciplines. I do not wish to depreciate my own craft nor to discourage wide-ranging economic research. At the same time we must recognize the pitfalls of parochial viewpoints. I suspect that our judgements on the management factor in Chinese economic development would benefit from the insights of political scientists; and I feel confident that we could have made sounder assessments of the prospects for the communes if we had not confined ourselves to the strictly economic aspects of the problem. We all face the frustrations of jurisdictional limits in our research, but we might have another look at the possibilities for promoting a broader interdisciplinary and inter-speciality approach to problems.